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SUBJECT: Taiwan Population Focus - Quantity vs. Quality

1. (U) SUMMARY: Like other economies in East Asia, Taiwan has experienced a decline in births and an aging population. In the Taiwan government and press, there have been two contrasting approaches to the issue of low fertility. Some, including the Ministry of the Interior, Academia Sinica, and the popular press, tend to view the decline in births as a serious problem threatening Taiwan's economic growth. Others, including the Council for Economic Planning and Development, predict that a slight drop in population may even be beneficial, and argue that the focus should be on the population's quality, not quantity. The Ministry of the Interior is developing a population white paper with policy guidelines for promoting increased fertility, but its conclusions have led to disagreement within the Executive Yuan, and approval of the white paper has been postponed. End summary.

Larger Population, Smaller Families

2. (U) Taiwan's population has undergone significant changes over the past fifty years, following global trends. Between the 1950s and 1980s, as Taiwan's economy developed, its population grew dramatically in size and density. Its population increased from 9.1 million in 1955 to 22.8 million in 2005, and population density (including non-arable land) grew from 252 per square kilometer in 1955 to 626 per sq.km in 2005 - making it one of the world's most densely populated countries. At the same time, there has been a decline in family size, as Taiwan made a rapid transition from a rural agrarian society to a highly developed industrial economy, extended families began to split into nuclear units, and women entered the workforce in greater numbers. Compared with several decades ago, young people tend to spend longer periods being educated and delay marriage and childbearing.

3. (U) These trends lowered the total fertility rate (TFR) from 5.6 in 1961 to 1.2 in 2004. (Note: total fertility rate, or the average total number of children born to a woman over the span of her childbearing years, is a useful measure of population trends.) Taiwan's TFR is among the lowest in the world -- equal to South Korea and several Eastern European countries, and higher only than Hong Kong and Macau's rates of 0.9. In 2004, the Council for Economic Planning and Development (CEPD) released population projections based on a range of fertility rates. In the middle projection, in which Taiwan maintains its TFR of 1.2, the total population will begin to decline in 2023, and the size of the workforce (people aged 15 to 65) will decline beginning in 2016.

Some Government Agencies Concerned About Low Fertility

4. (SBU) While there has been extensive local press coverage treating low fertility as a social crisis, there is a range of views within the Taiwan government on the seriousness of the issue. According to Dr. Lin Dajun of CEPD, policymakers fall into two camps. The Ministry of the Interior's Population Administration Department, the primary government agency dealing with population issues, as well as influential researchers at Academia Sinica, view low fertility as a problem with serious implications for the size of Taiwan's workforce, its economic growth rate, and its ability to support a steadily growing number of retirees. Proponents of this view argue that the increasing dependency ratio, or the number of workers supporting each retiree, is the main cause for concern. Currently, each dependent is supported by two workers, but if the low fertility trend continues, the ratio will be one to one within fifty years. In order to reverse this trend, these policymakers argue that the government should try to increase the fertility rate by encouraging couples to have larger families.

For Other Agencies, Quality More Important Than Quantity

5. (SBU) On the other hand, top officials within CEPD tend to view low fertility as a less worrisome trend. Lin said

that many at CEPD argue that a slight drop in population would even be beneficial, given Taiwan's high population density and growing legal and illegal immigration. The Ministry of Finance is also wary of devoting significant resources to address population trends. CEPD has argued that rather than devoting resources to increasing the birth rate, the government would be better served by increasing participation in the workforce, raising the retirement age, and changing the pension system. It should also consider further relaxing immigration laws to attract more foreign labor.

16. (SBU) The issue of population quality has received recent attention in the press, which has described a popular anxiety about deterioration in the quality of Taiwan's population as talented, highly educated people are drawn to work in the Mainland, while people with lower education and income levels, especially foreign brides, immigrate from the Mainland and Southeast Asia. (Note: the phenomenon of increasing numbers of foreign brides will be examined septel.) A recent editorial in Taiwan's Business Week (Shangye Zhoukan) magazine noted that these trends have caused popular concern, but argued that limiting immigration is not the answer to improving the quality of the population. CEPD's Lin stated that quality rather than quantity of the workforce will be a greater challenge in maintaining Taiwan's economic growth, and noted that any improvement in quality will require an even greater focus on training and education. He argued that Taiwan's egalitarian society would not accept a population policy targeting college-educated people to have more children, as has been attempted in Singapore.

Disagreement Over White Paper and Financial Incentives

17. (SBU) These differences in opinion have come to a head in recent discussions about the population policy white paper. The Ministry of the Interior prepared a draft white paper, giving recommendations for both financial and non-financial methods to promote increased fertility. Policy guidelines from the white paper were presented to the Cabinet for discussion in late June, but because of disagreements among agencies about the feasibility of some initiatives, the Executive Yuan (EY) has postponed approval until after further discussions. Neither MOI, CEPD, nor Academia Sinica were at liberty to provide details of the White Paper's contents before its approval by the EY, but based on discussions with staff at CEPD, MOI, and Academia Sinica, it is likely that among the proposed initiatives are tax incentives for second or third births, changes to parental leave regulations, and improvement of day-care facilities.

18. (SBU) Tax and cash incentives are frequently proposed to encourage couples to have additional children, because couples often cite the high cost of raising children as an obstacle to having larger families. However, there is considerable opposition within the government, especially the Ministry of Finance, to extending them, because it would reduce tax revenue. According to CEPD's Lin, the prevailing view at CEPD is that "there's no use in spending money to increase fertility," and that creating tax incentives for couples to have more children requires a large input of resources to increase the fertility rate by a very small amount. One study cited by Academia Sinica researcher Chen Chaonan estimated that increasing the personal tax exemption by US\$33 during the period 1990-1996 resulted in an increase of only 1.2 births per thousand women, and cost the government up to US\$612,000 in lost revenues for each additional birth. At the same time, CEPD's Lin predicted that couples are unlikely to be persuaded by a relatively small tax exemption to have additional children. A proposed one-time incentive of US\$1000 for a third birth has received negative press coverage for this reason.

19. (SBU) In its white paper, the Ministry of the Interior is likely to propose a mix of financial and non-financial incentives to promote fertility. The MOI currently has a program providing a one-time subsidy of US\$320 for families with a five-year old child, and they plan to expand the program to include families with younger children. MOI's Hsieh Ai-ling argues that while tax and cash incentives may not be enough to convince people to have additional children, they are a way to reinforce the concept that a shrinking population may affect Taiwan's economy in the future. Hsieh stated that "the bottom line is we need to change attitudes, not incentives."

Comment

10. (U): The trend in Taiwan towards later marriage and fewer children is part of a broader trend throughout the developed world. A highly educated society like Taiwan, in which both men and women spend much of their twenties and

thirties in school and focused on starting their careers, will necessarily tend to have smaller families, and there is little that a government can do, with either financial or non-financial incentives, to reverse that trend. While a drop in the young population may present difficulties in supporting the growing number of retirees, it is still very uncertain that Taiwan's low fertility will cause the severe social problems that have been predicted. Cable prepared by AIT Econ intern Anne Bilby. End comment.

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